

# Implications for higher education of the public sector reform agenda

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## Introduction: the changing relationship of universities and government

Over the last two decades a large number of Western governments, as part of a broader agenda to reform and revitalise their economies, have sought to improve the performance and streamline the activities of their public sector organisations. While the precise form of such changes has varied across different jurisdictions, most have focused on analysing the role, size and performance of the public sector, and have included specific measures to improve accountability, professionalise staff and improve administrative and management systems, and focus on the financial performance of these bodies.

This interest by government in improving the public sector, which in the first instance typically targeted core public service departments, has tended subsequently to broaden, embracing the activities of all categories of taxpayer-funded organisations. The tools used to dissect various elements of organisational performance have also diversified, in the last decade focusing increasingly on opening-up parts of the public sector to market competition as part of a broader agenda of deregulation.

The higher education sector has not avoided the development of these trends; it was also directly targeted during the late 1980s by the federal government's program to create a unified national university system. In more recent years Australian universities have been exposed to a number of public sector-style regimes designed to improve their performance and accountability. We thus have heard a great deal about the quality agenda, strategic planning, performance indicators, benchmarking, performance-driven research funding, and performance management for staff.

While there is no doubt that the adoption of these and other elements of the public sector reform agenda is having a major impact on individual institutions, and on the higher education sector as a whole, the extent to which universities have been encouraged to adopt this framework is somewhat uneven. It may also be the case that universities are confused in some respects about governmental expectations of them. For example while universities have been exhorted to improve their performance, to look outward and to be more competitive, they have been seemingly subject to an increasingly complex array of regulatory provisions. Nor is it necessarily easy for people inside the higher education system to reconcile the rhetoric of some of these changes with the legislative and industrial realities governing workplace practices within our universities.

Government also needs to be fully sensitive to the extent to which our universities are now operating competitively in an international market. It is therefore important that the domestic regulatory requirements which are imposed do not adversely affect the international competitiveness of the Australian system, and the capacity of its institutions to attract international students, and develop international programs. Inasmuch as a local market exists for fee paying postgraduate students, a similar question must apply.

The outcome of the current community debate over Professor Hilmer's proposals for a national competition policy, which would expose publicly-funded bodies operating in the marketplace to the provisions of the *Trade Practices Act*, could have especially significant implications for the higher education sector. For example, it could

have a profound impact on the way in which university academics conduct consultancy activities or retain rights of private practice; these areas already are beginning to engage the attention of auditors-general. It also could affect the manner and extent to which universities go to the outside community for the provision of certain internal services, thereby raising again the entire issue of outsourcing. The consideration of Hilmer's proposals might even agitate further debate about the nature of competition between public and private providers in the post-secondary marketplace. And finally, the debate over competition policy might well focus attention on even more fundamental questions relating to the basis and circumstances of student admissions into our universities.

In some ways the uncertainty within the higher education sector about the Commonwealth's agenda may reflect the changing level of interest within the federal government toward higher education. Traditionally, universities probably were seen as reasonably peripheral in terms of their contribution to the national economy. This is no longer the case. Apart from the higher education sector now being an acknowledged player in terms of attracting export earnings, and apart from the sector's contribution to the national research and development effort, the focus on improving skills levels within the workforce has helped to intensify governmental interest in the activities of both the higher and technical and further education sectors.

Government itself periodically reconsiders the structural form of its relationship with the higher education sector. At various times in the past that relationship has been conducted largely via the establishment of an independent commission such as the former Commonwealth Tertiary Education Commission (CTEC). Nowadays, however, the debate within government circles on this issue tends to be in terms of whether the university sector should be seen effectively as a program of the Department of Employment, Education and Training (DEET), or whether institutions should be treated more along the lines of government business enterprises. This remains an important and delicate issue. It is one which bears directly on whether the current structure of relationship between universities and the federal government provokes a set of assumptions about the role of the university enterprise within the broadly-defined public sector, and whether the legislative protections afforded to most universities via State-level arrangements are appropriate, meaningful or relevant.

## Taking stock of the challenges confronting the university sector

Australian universities are confronted by a series of related pressures:

- (a) demands from government and from the community for more accountability and better performance, to be achieved in a climate of generally tightening budgetary circumstances;
- (b) more direct competition with other domestic and international universities and the TAFE sector for the school leaver market, and with professional bodies and with workplace-based programs for those seeking career upgrading or reaccreditation;
- (c) a teaching and learning environment being reshaped in a potentially quite radical way by the combined (and sometimes

contradictory) impacts of new information technology and communications, massification of the higher education sector, and the requirement for economy of operations; and

- (d) the overall environment of the higher education sector, characterised by its attempts not only to absorb the influences identified above, but also by the interest of universities to maintain their independence, internationalise their perspectives, acquit their social justice objectives, respond to national goals, and identify new sources of revenue.

The presence of these pressures means that universities are now obliged, in a quite fundamental way, to consider how they operate. They are, after all, very large and diverse mainly taxpayer-funded organisations operating in a complex and dynamic environment. They share with many other such publicly-funded organisations the requirement that they are being forced to do more with less. What is slightly different is that they are also being asked to balance traditional values against contemporary realities and, more broadly, to accept that the way in which they have functioned in the past may no longer be affordable or relevant.

Any sector of the community which attracts in excess of \$4.8 billion of taxpayer support every year, and which is responsible for capital infrastructure far in excess of that amount, must accept the requirement to ensure that its activities are pursued in a responsible, cost efficient and effective way. In those terms the challenge for universities is to improve their performance and accountability in line with contemporary community expectations while simultaneously protecting, as far as possible, worthy aspects of their tradition.

## The case for a focus on staffing policies and practices

The work of universities is heavily labour-intensive, the salary-related costs of Australian universities now well exceeding \$3 billion annually. Given this, and also given the links which can be reasonably struck between individual and overall organisational performance, one would assume that a systematic focus on the way in which universities recruit, engage, nurture and otherwise manage their staff would have emerged as a major plank in the performance improvement agenda within the higher education sector.

This does not appear to be the case. Indeed, it appears that the higher education sector has suffered from a collective blind spot in terms of its capacity to develop staffing strategies which either can adapt to fluctuating though generally more difficult budgetary circumstances and a more competitive environment, or are appropriate for our future learning environment. Moreover, apart from piecemeal interest in academic staff development, there seems to be negligible system-wide commitment to consider the management of staff and the planning of future staffing needs as a strategic issue.

There are some explanations for this blind spot about staffing.

The growth of higher education in Australia has helped to shield the sector from the budgetary cuts which have affected most other taxpayer-supported areas in recent years. Universities also have tried to steel themselves from encroaching budgetary realities and external demands for better performance and accountability by reminding themselves of their unique character - the individualistic nature of much academic work, the need for the community to uphold the benefits of independent scholarship, and the collegial spirit of academic life.

However, there are also emerging signs that some individual universities are now recognising the strategic importance of properly managing staff and staffing issues, including the performance management of staff. In doing so, they are also confronting their historical reluctance to consider anything which looks like performance assessment, appraisal or accountability.

There is little doubt that adopting a more strategic approach to staffing matters will involve some challenges for the system. For example, the concept of unconditional tenure, which is rapidly disap-

pearing in the broader public sector, will inevitably be reformulated in the higher education arena.

Tenure, long associated in the public service with the need for independent advice and in universities with academic freedom, is now generally questioned. It is also being eroded, in practice, by the requirements of much stricter financial regimes; hence, the increasing use of redundancy packages, the provision of early retirement schemes, and the increasing need for universities to examine the way in which their internal services are delivered.

Staffing policies and practices also will be affected by other developments. For example, the likely reduction of staff-student classroom contact, the development of alternative teaching modes encouraging different types, levels and styles of interaction, and the potential for much stronger inter-institutional collaboration in both teaching and research, as well as the sharing of facilities are but a few of the possibilities which could confound our traditional perspectives of staffing requirements.

Some of our traditional thinking will have to change. Inevitably larger classes, for example, might not necessarily result in formula-driven increases of new staff positions, or new lecture theatres or additional laboratory space. On the other hand, we are increasingly likely to be funding development projects which focus on how the quality of the learning environment can be maintained and enhanced given the entirely altered teaching modes, different staff needs and transformed space requirements continually emerging. At a practical level these issues will lead to universities having to consider the benefits of engaging permanent academic staff against the possibility in some cases of buying-in outside expertise to develop or deliver academic programs. The availability of these options will, in turn, have implications for the pattern of engagement of staff, and is likely in particular to encourage more flexible employment practices.

Despite these emerging realities, there is a deal of evidence to suggest that, as a system, we are reluctant to embrace these difficult challenges. Nowhere is this more apparent than in the way enterprise bargaining is being tackled within the higher education sector. Instead of recognising the potential of enterprise bargaining to be something of a circuit-breaker in terms of our traditional thinking, enterprise bargaining is being largely waged as a way of maintaining and enhancing Award arrangements which were established in the circumstances of a different era.

Nor is the agenda of effective management of staff confined to issues related to performance management. Effective human resource management in any organisation, especially a large and diverse one such as a university, is also about effective delegation of responsibilities, about effective recruitment practices, and access to training (an especially important area for non-academic staff).

## Improving resource allocation and planning systems

It is critical that the overhaul of staffing policies and practices be tied to the budget and to future planning, and that the budget process itself be seen as a mechanism by which each university aligns the allocation of resources with academic program and policy priorities and through which faculties are held accountable for particular activities and outcomes.

At a broader level, universities now find themselves subject to financial management standards instituted by both federal and state governments. The level of compliance with those standards varies across the sector, some universities encountering difficulties in reconciling and realigning their existing accounting and planning systems and management structures with new external requirements. Nor has their capacity to achieve this been assisted by sometimes inconsistent legislative requirements as between the federal and relevant state authorities.

Many universities have already made progress in the areas of planning and resourcing. However, the March 1995 Report of the Committee for Quality Assurance in Higher Education provided a number of examples of universities where strategic planning processes

needed further development and refinement. Regardless of compliance requirements, universities should recognise that such practices are important components of good management in any contemporary organisation. In any case, a failure to acknowledge such obligations will assuredly lead to a much more systematic focus on our operations, not only by the agencies of executive government, but also by public watchdogs such as anti-corruption agencies and auditors-general. The recent report of the WA Auditor-General relating to the compliance by university staff in that State with relevant university policy in respect of consultancy activities and rights of private practice is but the most obvious current example.

A focus on improving budget and financial management will affect universities not only in global terms. It may also involve, at a detailed level, a careful assessment of the way in which resources are allocated for teaching and research activities. That may be very difficult for the system to accept, but overseas experience suggests that we should prepare ourselves for such debates. For example, the way in which information technology and communications are transforming the teaching and learning environment, together with the pressures for massification of the student population and the requirement to manage with less resources, will lead collectively to the identification or reformulation of the various performance measures that are in use. For example, over recent years much stronger emphasis has been placed on indicators such as graduation and progression rates, building occupancy rates, research output measures, and productivity measures for staff. On the other hand, in the future much less emphasis is likely to be placed on the importance of staff: student ratios in our academic planning. It may well be that staff: student ratios will, in the future, be examined alongside the costs of offering course units.

Experience to date with relative funding models suggests that the prospect of moving in such a direction might not be welcomed, and undoubtedly regarded as another example of managerialism encroaching into the sector. But it also might provide a very useful guide in terms of the consumption of resources as between undergraduate and postgraduate teaching.

A systematic focus on identifying better ways of allocating resources and planning future needs could also lead to more serious attempts to share resources across institutions. While the difficulties of such resource-sharing are acknowledged, the frequent unwillingness of institutions to grapple with this challenge is, perhaps, surprising. Probably the most obvious case in point, and one which bears directly on students and the overall quality of the learning environment, is the reluctance by many universities to cooperate with other institutions in terms of their library collections.

This reluctance to cooperate derives in part from the competitive environment which is being encouraged. In turn, this raises the issue of the relevance of market competition in an environment where the government has an interest in seeing strategic collaboration and economy in the use of system-wide resources.

A systematic focus on resource allocation is also likely to lead more institutions to seriously analyse the possibilities of contracting-out certain of those services currently operated internally. In terms of this issue, however, the mixed experience of the broader public sector needs to be carefully considered.

### Asset management and risk assessment

A particular area for concern for universities as they seek to adopt better practices is that of risk management. Since the amalgamations of the last decade some universities have experienced a quantum leap in their asset values. Usually, a series of steps are designed to protect an organisation from unnecessary costs and losses. The management of 'risk' thus should be a vital activity in any organisation. Substantial losses including inefficiencies can be incurred if adequate systems are not established to identify risk and its impact. In this regard annual system appraisals may be used to assess the current level of exposure to risks. The financial standards applicable to universities in most states now require an analysis of the control environment, including an assessment as to whether the controls limit the risk to a level that is

acceptable to management. This involves the achievement of a careful balance as between the cost of the control and the risk it mitigates.

### The regulatory framework

There is also little doubt that, if governments are serious about universities operating efficiently and effectively in both domestic and international contexts, serious attention should be devoted to the complex regulatory machinery presently governing university operations.

While universities operate under their own State Acts of Parliament, the Commonwealth is in a far stronger position to enforce compliance because of its control of the funding arrangements. The Commonwealth's interest in developing performance-based funding arrangements had been signalled over some years, although the adoption of real performance targets and measures in the system is essentially limited to the broad participation targets set in the profiles process, and real funding sanctions have generally been avoided. Commonwealth grant payments are now made direct to educational institutions rather than via the States. Consistent with this funding approach, universities themselves are responsible, rather than the States, for compliance with Commonwealth grant payments. However, the Commonwealth has generally left the determination of financial management standards and policies to state governments. Commonwealth-level accountability requirements have emphasised educational data collection and financial statement reporting (e.g., through education profile submissions) with little emphasis on establishing the standards for results-oriented management of universities. For example, as a condition of receipt of grants from the Commonwealth, universities present audited financial statements. But there is no requirement for the inclusion of non-financial performance information.

Universities in all states are now specifically covered by state government financial standards designed to improve financial management practices and accountability. Such requirements cover a range of areas including program management, asset management, position assessments and system appraisals (including cost effectiveness of internal controls and risk assessment) as well as the requirements for annual reporting and financial statements.

### Conclusion

There may still be some resentment from within the sector about the trend in universities towards adopting contemporary management practices from the broader public sector. This is understandable. At the end of the day, however, universities must recognise that they are publicly-funded organisations which attract a hefty level of taxpayer benefaction and, like all other such supported organisations, they are being required to perform better and be more accountable for their activities.

Given that this trend has no prospect of being reversed, the issue for universities is not whether to accept or decline to contemporise their policies and practices, but to identify those elements of the public sector reform agenda which genuinely underpin improved operating efficiencies, and which advance the system towards its core goals, and to demonstrate convincingly to government the nature of this relationship. To that extent the sector itself has an obligation not merely to accept in a resigned way the machinery being imposed by governments on universities classified as part of a more broadly defined public sector, but to recommend the way in which such machinery may be shaped in its operation within universities so that tangible improvements occur in the way in which universities discharge their teaching, research and service obligations.

# Decision-making in higher education: A comparative perspective

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## Introduction

In many countries the manner in which higher education institutions are governed and the way in which internal decision-making processes and procedures operate are under discussion. To give but a few of the many examples, in Australia the government has initiated a system-wide review of institutional management, recently in Denmark the governance structure of institutions has been changed, in Ireland a review of management processes and structure is underway, in the Netherlands governance and management are key issues in the ongoing debate about restructuring higher education, and in Germany management issues feature in the discussion about the future direction of the system. This renewed interest in the governance and management of higher education is due to several factors.

First, it can be seen as a 'logical' component of a trend set in motion in the mid 1980s that emphasises a more market-like approach to the steering and control of higher education systems. For various reasons, governments the world over have made more or less far-reaching attempts to introduce more market-related approaches into their higher education systems, the most prominent being the allocation of part of the overall resources on the basis of competition and attempts to increase consumerism by, amongst others, increasing the user-pay element. Without going into the details of this development (see Goedegebuure *et al.*, 1994 for a thorough discussion), the increased emphasis on managerialism and business-like structures is in line with the broad philosophy of the market-like approach.

Second, it can be seen also as a 'logical' consequence of an increased emphasis on institutional autonomy. In line with the notions of remote government control, self-regulatory systems, and a model of governmental supervision instead of stringent planning and control (see Neave & Van Vught, 1991), higher education institutions in many countries have experienced - sometimes profound - changes in their traditional relationships with national governments. Whether or not institutional autonomy actually has increased as a result of these changes remains a moot point, but it is without doubt that the demand for institutional accountability, especially in terms of the primary processes of teaching and research, has increased. Recently, the demand for accountability has stretched into the realm of management and governance.

Third, and closely related to the previous point, is the trend towards increased accountability in terms of value-for-money. With massive increases in higher education participation over the last decade and with diminishing resources available to the sector, efficiency questions are high on the political agenda the world over. And while initially the efficiency movement focused on increasing research productivity and a streamlining of the educational process in order to reduce the time-to-degree, more recently it has entered the realm of higher education governance and management on the assumption that much can be improved. If only institutions were to be better managed, many of the problems that now face higher education could substantially be reduced or even eliminated. At least, such is the atmosphere influencing many of the recent governmental and parliamentary papers and debates on higher education.

Given this increased attention, it is remarkable the degree to which the higher education research community has ignored issues of governance and management, particularly from a comparative perspec-

tive. Admittedly, the Northern American literature still emphasises notions of leadership, and the total quality management and continuous quality improvement movements also deal with issues of governance and management. British researchers have investigated the role and function of institutional top-management in the wake of the fundamental changes that have beset higher education in the United Kingdom. But for rigorous structural analysis of higher education decision-making, we remain reliant on the pioneering works of Baldrige (1971; 1978), Clark (1983), and Mintzberg (1979). In terms of comparative research, little attention has been given to the effects the changes over the last fifteen years have had on the currency of traditional concepts of academic organisation, such as the Continental, Anglo-Saxon and American governance models, with different loci of decision-making according to system type. Questions concerning to what extent decision-making processes still exhibit the characteristics of bureaucratic, collegial, political or garbage-can models remain to be answered. Has higher education managed to 'neutralise' much of the changes over the years through its internal decision-making processes and has it continued in much the same way as before, or have these changes affected the internal operations of the institutions?

In this article we present the first, preliminary findings of a comparative study commenced early in 1995 on governance structures and decision-making processes. Our primary objective in this study is to assess to what extent previous notions about governance, management and decision-making still hold true. A secondary objective is to investigate to what extent different forms of organisation and their ensuing decision-making processes result in different degrees of efficiency and effectiveness. As a first step in this ongoing research project - estimated to be a five year study - we distributed a questionnaire to top administrators in seven European countries. On the basis of an analysis of the results of this questionnaire, more detailed case studies will be performed for we are well aware that a survey is but an instrument to obtain a first glimpse of the intricacies and complexity of institutional governance and decision-making. For the present article, we examine our initial findings regarding decision-making in higher education institutions. Notwithstanding the limitations associated with the instrument and the fact that much of our initial analysis is basically descriptive in nature, we hope that these first results will make the reader sensitive to the differences that exist between countries and between different types of institutions. Only through an appreciation of both the complexity and variety in institutional governance structures can we improve our understanding of this important aspect of higher education.

## Research design

In order to obtain empirical data a questionnaire was constructed, composed of three blocks of variables. In the last week of January 1995, this questionnaire was sent to the Rector (Vice-Chancellor, President) of 376 higher education institutions in Sweden, Denmark, the Federal Republic of Germany, France, the United Kingdom, the Netherlands and Flanders. It is assumed that these persons have a good overview and substantial knowledge and experience with respect to the governance structure of their institution and therefore can provide useful empirical data. From these 376, 123 institutions completed the questionnaire (only 112 in time to complete the analysis presented in